



Annual Report of the Audit and Corporate Practices Committee

Mexico City, March 15, 2018

To the Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V.

As provided by Articles 58 of the Law to Regulate Financial Groups and 43 of the Securities Market Law, the Audit and Corporate Practices Committee (the Committee) submits its annual report of activities for fiscal year 2017.

The contents of this report shall refer to Grupo Financiero Banorte (GFNorte) and the following relevant entities: Banco Mercantil del Norte, S.A., Casa de Bolsa Banorte Ixe, S.A. de C.V., Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER, Sólida Administradora de Portafolios, S.A. de C.V. SOFOM ER, Seguros Banorte, S.A. de C.V., Pensiones Banorte, S.A. de C.V. and Banorte Ahorro y Previsión S.A. de C.V.

I. Audit:

a) Concerning the status of the Internal Control System (SCI) and the Internal Audit of GFNorte and its relevant entities, and the deficiencies and diversions, the following elements were taken into consideration:

1. The annual reports on activities concerning Internal Control of the relevant entities prepared by their Managing Directors.
2. The reports of Internal Controllers of the relevant entities of GFNorte with their opinion on the performance of the SCI.
3. The opinion of Internal Audit on the status of the SCI of relevant entities.
4. The reports on relevant deficiencies and observations of GFNorte and Subsidiaries submitted by Internal Audit and monitoring of corrective measures.
5. The reports of observations to the External Auditor's Internal Control, and its opinion on the financial statements of GFNorte and Subsidiaries.
6. The reports from inspection visits by the competent Authorities.
7. The reports of Statutory Auditors of the relevant entities of GFNorte.
8. The reports of other Audit Committees on relevant events and minutes of their meetings.
9. The reports on Internal Audit management and performance of its work schedule.

Taking the foregoing into consideration, it is informed that the SCI of GFNorte and its relevant entities generally works in an efficient manner, and that any deficiencies or diversions found have been addressed, and others are in process of being addressed.



Concerning the operation of Internal Audit, the area has kept its independence, reasonably complied with its work program according to the best practices, and efficiently monitored the implementation of actions to correct the observations and areas of opportunity found.

- b) No significant breaches of the operation and accounting registration guidelines and policies of GFNorte and its relevant entities occurred, and the identified areas of opportunity were reported to the responsible parties, and measures were taken to address them, and there is a monitoring system to guarantee their appropriate implementation.
- c) Concerning the assessment of the performance of the legal entity that provides external audit services, it is informed that, in the performance of its activities, and in its relationship with the Management and the Committee, the quality of the firm Galaz, Yamazaki, Ruiz Urquiza, S.C. (a member of Deloitte Touche Tohmatsu) and of the Auditor in charge has been verified.

Likewise, it considered that the contents of its opinions and reports are of good quality and useful to support the Committee, and that its results and opinions match those of the Management.

- d) Concerning the description and assessment of the additional or supplementary services provided by the External Auditor, its hiring was approved during the fiscal year in order to obtain an opinion on the interim financial statements as a part of the process of issuance of Capitalization Instruments (Subordinated Debt), a structural analysis of the personnel Pension Plan, the funds that comprise it, the resources generated by it and the treatment for purposes of deferred taxes of the plan, and execute works associated with the Program for Placement as Recurring Issuer that Banco Mercantil del Norte plans to execute for the next 5 years in the Mexican market.

It was also approved to revise the tax status of Grupo Financiero Interacciones and of such companies for the fiscal years 2015, 2016 and 2017, and to execute works related to the Financial Due Diligence.

Finally, their hiring was authorized to review the report on sustainability and local taxes and transfer prices in intercompany operations.

- e) The review of the financial statements of GFNorte and Subsidiaries as of December 31, 2017 and the opinion of the External Auditor was made, corroborating that they were prepared in all material aspects in accordance with the applicable accounting criteria, and the approval was recommended to this Board of Directors. The Committee also reviewed on a quarterly basis the interim financial statements for the fiscal year.
- f) Concerning the main amendments to the accounting policies and criteria used during the fiscal year, it is informed that the amendments were made in order to comply with the changes in the applicable provisions described in Note 4 to the financial statements, "Main Accounting Policies", which contains a detailed explanation of the same and their effects.
- g) No relevant observations were received during the fiscal year by shareholders, directors, senior officers, employees or any third party with respect to the accounting records, internal controls, or internal and external audit, or reports on irregular events. According to the best practices, there is an anonymous reporting system and the Committee monitors the appropriate treatment thereof.
- h) In connection with the monitoring of the resolutions of the Shareholders Meeting and the Board of Directors, such bodies did not request the Committee to monitor any particular resolution.
- i) During the fiscal year, Banco de México conducted an inspection visit which focused on financial markets, payment methods and compliance with the Transparency Law.



CNBV made observations mainly related to payroll and automobile credit, some inconsistencies in risk calculation, accounting records and investment services.

In December, an answer was given to CNBV about such observations, contributing additional information on certain points so that they are addressed, in other cases, referring to the correction plan which is already being applied and, in certain cases, informing that the corresponding analyses will be made to start correction programs.

The main findings were reported to the Board of Directors at the meeting held on January 25, 2018.

- j) Other relevant activities within the responsibility of the Committee include the review of the operation of the Conflict of Interest Prevention System of GFNorte and the remediation plan of observations found by Internal Audit concerning the Foreign Currency and Trust Market.

Concerning Technology, the Committee reviewed the actions to fully remedy the problems of users with incorrect profiles and the progress in the project for improvement of client identification procedures, in order to comply with the provisions to prevent identity theft.

During this term, the Committee monitored the progress in the implementation of the Trustee's new operating model.

Concerning the Internal Audit functions, the Committee assessed the results of the review made by the Mexican Institute of Internal Auditors (IMAI), and the work plan to respond to areas of opportunity identified in the Technology Audit function.

Concerning the communication with the External Auditor, the Committee reviewed relevant events of the audit for fiscal year 2017 and other subjects considered in its external audit plans, such as news on corporate governors and tax practices, results of the assessment of the level of compliance with the new legislation (Solvency II) of the companies of Seguros Banorte and Pensiones Banorte, results of the review of the General Information Technology Controls (CGTI) and other matters related to audit.

Additionally, the Committee reviewed the status of value added services of the External Auditor pending completion for fiscal years 2015 and 2016, and authorized those corresponding to 2017.

In connection with the event occurred at Casa de Bolsa Banorte Ixe, the Committee monitored the same, reviewing together with the Patrimonial Banking, Juridical, Controllership and Internal Audit Departments, the identified areas of opportunity and actions for their mitigation.

Concerning the credit, the Committee reviewed the actions of the Analytics area to contribute to reduce the risk cost of the Payroll Credit product and the results of the Loan Review for fiscal year 2017 applicable to Banco Mercantil del Norte and Arrendadora y Factor Banorte.

In connection with the merger with Grupo Financiero Interacciones (GFI), the Committee held work meetings both independently and with members of the Management and their legal and financial advisors, and with the different external advisors of such Committee.

In this respect, the Committee reviewed the presentations of the Management and of the financial experts, both of those hired by the Management, and of the experts hired by the Committee.

As a result of the foregoing, the Committee recommended to submit to the Board of Directors, for purposes of analysis and assessment, the opinions of independent experts hired to assess the proposal of merger with Grupo Financiero Interacciones from different points of view, and the Board



resolved to authorize the Management to continue the negotiation and submit the project to the Shareholders Meeting for approval.

Concerning other matters, the Committee reviewed the external auditor selection process of Banorte USA, the training course for Directors concerning Money Laundering and Terrorism Funding (PLDyFT) and information on financial profitability (ROE) per product and segment, the Uniteller Financial Services business plan, the quality analysis process in products and services, and information on manuals and standards of GFNorte.

II. Corporate Practices:

- a) With respect to the observations concerning the performance of the relevant senior officers, the Office of the Secretary of the Human Resources Committee informed that no cases of senior officers acting in breach of the established policies occurred during the fiscal year.
- b) The operations with related parties were approved by the Board of Directors and, as of December 31, 2017, the credits extended through Banco Mercantil del Norte to related parties amount to \$19,410 million, which amount is lower than the limit established by the corresponding regulations.

Intercompanies operations were made at market prices, which were verified by an External Auditor, who did not report any findings.

During 2017, the Committee monitored the implementation of the Conflict of Interest Prevention System of GFNorte, helped by the Internal Audit and Controllership reports.

- c) With respect to the Compensation packages of the Managing Director and relevant senior officers, there is a Compensation System approved by this Board of Directors, which divides their compensations into ordinary and extraordinary, and includes rules to defer the latter depending on established risk indicators and compliance with the policies, which has been applied in an appropriate manner during the fiscal year taking into consideration the results from the review made by the Internal Audit and the reports submitted by the Human Resources Committee and the Risk Policies Committee to the Board of Directors.
- d) During the fiscal year, the Board of Directors did not grant any releases to relevant directors or senior officers to take advantage of business opportunities.

Sincerely,

Héctor Reyes Retana y Dahl
Chairman of the Audit and Corporate Practices Committee of
Grupo Financiero Banorte, S.A.B. de C.V.

